

25X1

Approved For Release 2004/08/17 : CIA-RDP79T00865A002400010001-5

Next 1 Page(s) In Document Exempt

Approved For Release 2004/08/17 : CIA-RDP79T00865A002400010001-5

SECRET

Approved For Release 2004/08/17 : CIA-RDP79T00865A002400010001-5



25X1

CONTENTS



25X6

Inner-German Relations Again A Disputed Topic in West Germany	4
Britain Bails Out Chrysler Subsidiary	6
British Import Controls Barely Worth The Bother.	8
Portugal Seeks Help in Solving Economic Problems.	11

ANNEX

France Edges Toward Allied Arms Standardization	13
--------------------------------------------------------------	----

December 18, 1975

SECRET

25X6

Approved For Release 2004/08/17 : CIA-RDP79T00865A002400010001-5

Next 2 Page(s) In Document Exempt

Approved For Release 2004/08/17 : CIA-RDP79T00865A002400010001-5

~~SECRET~~

25X1

Inner-German Relations Again A Disputed Topic
in West Germany

The status of inner-German relations has again become the subject of heated debate in West Germany.

Opposition party leaders have called on the government to break off negotiations with East Germany just as the Schmidt government was ready to conclude an agreement to improve the transit routes to West Berlin. The opposition is certain to make the agreement a major issue in the national electoral campaign if the government follows through on its plan to sign the agreement.

The opposition was given unexpected political ammunition when the weekly newsmagazine Der Spiegel charged on December 15 that East German authorities have put up for forcible adoption children whose parents have been caught trying to flee East Germany. East Berlin labelled the story an "outright fabrication" and expelled the magazine's correspondent.

The West German government, however, claims to know of five cases in which the East Germans took custody of the children of parents who attempted to flee to West Germany; in two cases, the parents were deported and the children put up for adoption. A government spokesman said that Bonn has attempted to persuade East Berlin to return the children to their parents. Bonn has also protested the expulsion of the correspondent.

December 18, 1975

~~SECRET~~

~~SECRET~~

The timing of the Spiegel story came at a most unpropitious time for the Schmidt government. Bonn had hoped--and apparently still intends--to conclude this week the package deal with East Germany to improve the road and transit routes to West Berlin.

The opposition in any event probably would have criticized this agreement as being too favorable to the East Germans. Now it is almost certain to broaden its attack to include the charge that the Schmidt government--like the Brandt government--has mishandled the entire scope of East-West German relations.

[REDACTED]

[REDACTED]

25X1

25X1

December 18, 1975

~~SECRET~~

SECRET

Approved For Release 2004/08/17 : CIA-RDP79T00865A002400010001-5

25X1

Britain Bails Out Chrysler Subsidiary

Parliament grudgingly approved yesterday a \$325 million plan to aid Chrysler's ailing UK subsidiary. The move ends nearly two months of speculation regarding the future of Chrysler's operations in Britain.

Chrysler's bail-out is the second within Britain's auto industry this year, a symptom of the serious problems facing it. Poor quality, bad industrial relations, an unsatisfactory delivery record, and low productivity affect all of Britain's auto firms. Reflecting these problems, the Labor government assumed majority control of British Leyland in August of this year. That measure called for the infusion of nearly \$3 billion in the company by 1982.

There had been considerable public and private debate concerning the bail-out of Chrysler. The left wing of the Labor Party objected to the plan because it does not give the government an equity holding in the corporation. The right wing opposed it because it undermines the government's new industrial strategy of backing winners. Opposition also came from the Liberal and Conservative parties.

Some members of the Cabinet, including Industry Secretary Varley, were strongly opposed to any form of aid to Chrysler. The influencing factors, however, were the potential impact of Chrysler's closing on employment and on automotive export sales, particularly to Iran.

Chrysler employs some 25,000 workers in the UK. The Chrysler operation helps to support 1,800 workers employed by dealerships and 70,000 workers employed by component manufactures. Despite the government's efforts, at least 8,000 jobs at Chrysler will be lost, adding to the rising tide of unemployment in Britain.

December 18, 1975

- 6 -

Approved For Release 2004/08/17 : CIA-RDP79T00865A002400010001-5

SECRET

Another factor underlying the government's move to aid Chrysler was the government's fear that the closing of the Linwood plant, located near Glasgow, would aid the Scottish nationalists' cause. The Wilson government indicated that Chrysler's operations would be streamlined by moving the assembly of the Avenger model from Coventry, England to the Linwood plant.



25X1

December 18, 1975

SECRET

SECRET

25X1

British Import Controls Barely Worth The Bother

Britain announced today a series of highly selective, very mild import controls. The announcement ends months of speculation regarding the possible imposition of such controls. The thinness of the package reflects London's hopes to placate trade unionists without sparking a major international protest.

The import controls include:

- Quotas on cotton yarn from Spain; the 1976 quota will be set slightly above the 1975 volume of imports
- Quotas on cotton yarn and synthetic fibres from Portugal, which will remain in existence until a new EC trade agreement is negotiated with Portugal.
- The Government will open discussions with Eastern European countries aimed at agreeing levels of restraint on their exports of men's woolen suits to the United Kingdom.
- Poland, Czechoslovakia and Romania will be invited to continue their existing restraint on exports of men's leather footwear throughout 1976, and to extend a similar voluntary restraint on women's and children's leather footwear.
- Establishment of an import "surveillance" scheme to monitor--but not to restrict--the

December 18, 1975

SECRET

importation of color TV sets and tubes and black and white portables from all sources, including other EC members.

The items selected for control came as no surprise. The Wilson government had long singled out these items as potential candidates for controls. The restrictions are, however, even more limited in scope than had been expected, apparently due to pressure placed on the British by the US and several EC members. As was expected, no quotas were established for autos.

The measures are largely a response to trade union demands that the government step up its attack on unemployment. In August, total unemployment passed the politically sensitive 1 million mark and is expected to reach 1.2 million before the current recession bottoms out next year. The textile, shoe, and television tube industries have been particularly hard hit. During the first half of this year, the color television industry, for instance, was running at 50 percent of capacity. At the same time, foreign imports accounted for over 50 percent of sales in the British market.

The measures are also a token attempt to improve Britain's payments deficit. While the balance of payments deficit is down from 1974, it is still expected to reach \$4 billion for the year. In contrast to last year, Britain is having difficulty financing its deficit due, in large part, to the reduction in OPEC sterling holdings. As a consequence, Britain announced in November its plan to borrow \$2 billion from the IMF.

While the protectionist measures may appease the demands of Britain's Trades Union Congress and left wing of the Labor party, London may come under attack from its trading partners. In the EC, the Commission is relieved that the UK action was not more comprehensive but annoyed with the "ridiculous" British course

December 18, 197

SECRET

and with the UK's failure to seek justification under EC rules for any of its actions. The Commission must now decide whether to let these measures remain in effect, although they are illegal under EC treaty commitments, or to try to persuade the British to revoke.

Under the General Agreement on Tariffs and Trade, Director General Long is considering calling a council meeting, perhaps on December 22, at which time the UK could discuss its controls. Long believes that a probably council determination that the measures are minor and do not contravene the UK's obligations under the General Treaty on Tariffs and Trade would help prevent the UK action from providing an excuse for other countries to introduce import controls.

[REDACTED]

25X1

December 18, 1975

SECRET

~~SECRET~~

25X1

Portugal Seeks Help in Solving Economic Problems

The West Germans are considering a loan to Portugal to help resolve Lisbon's impending international liquidity crisis. The non-Communists who now dominate Portuguese politics fear that, without foreign assistance, the severe economic restrictions the government would be forced to adopt would provoke popular unrest and threaten political stability.

Chancellor Schmidt told newsmen on Wednesday that the West Germans were contemplating extending credit to the Portuguese central bank. Schmidt indicated a proposal was being studied that was similar to the arrangement with Italy in which the Italians received a \$2 billion credit by putting up their gold reserves as collateral. Bonn has already agreed to give Lisbon \$27 million in bilateral aid, but Schmidt gave no figure for this latest proposal.

The announcement followed Schmidt's discussions with Portuguese Socialist Party head Soares, who is on a week-long tour of European capitals to explain recent developments in Portugal. Soares' mission is partisan rather than official, but any aid commitments he can produce will enhance the Socialists' popularity in legislative elections promised for next spring.

Soares has emphasized in his talks with foreign leaders that the political situation in Portugal is stabilizing, but that the country urgently needs economic assistance. Portugal's foreign exchange reserves are expected to run out early next year. The nation's gold reserves, valued at about \$4 billion at the present rate, were expected to forestall the crisis, but government efforts to sell or

December 18, 1975

~~SECRET~~

~~SECRET~~

borrow against the gold have been unsatisfactory, due in large part to the gold market's current instability and the reluctance of bankers to deal in large quantities of gold.

The Azevedo government expects to approve the first of a series of austerity measures--including a wage freeze and price and tax increases--at Friday's cabinet session. Government officials believe they have gained sufficient strength since the November 25 paratroop uprising to move ahead with such measures. These officials nevertheless fear that without foreign assistance the more severe restrictions that would be necessary might set off popular protests, which could provide the Communists with an opportunity to stage a political comeback.

While the cabinet is concentrating on the economy, military leaders have turned their attention to renegotiating an agreement with the major political parties over the division of government responsibility between military officers and civilian politicians. The armed forces presented a draft revision to the parties on Wednesday and the parties have until December 30 to submit their responses and proposals for a new pact. After the beginning of the year, a five-man delegation from the all-military Revolutionary Council will discuss the proposals with each party and draw up a final document.

The five-man delegation is weighted in favor of the faction of military officers who have agreed to reduce the military role in national political life, but do not want to withdraw from the government altogether. One of the members of this group, Lisbon region commander Lourenco, said recently that the military should quit politics at the "right moment"--but that this would not occur immediately following the legislative elections in the spring. [REDACTED]

25X1

December 18, 1975

- 12 -
~~SECRET~~

SECRET

Approved For Release 2004/08/17 : CIA-RDP79T00865A002400010001-5

25X1

ANNEX

France Edges Toward Allied Arms Standardization

The need for greater allied efforts in the area of arms standardization was the major topic at the meetings of foreign and defense ministers of the NATO countries in Brussels last week.

Allied concern over steadily increasing Soviet military might and growing economic pressures in the NATO states have combined to give new urgency to a concept that is as old as the alliance itself. A compromise approach has been worked out that satisfies both France, which wants to emphasize the European component of a standardization effort, and the other allies, who do not want to lose sight of cooperation within the Alliance as a whole.

France will participate in a temporary NATO committee, but its mandate has been restricted to studying how to facilitate inter-changeability of equipment--in effect, an early stage of standardization. The committee will prepare an action program for presentation to the NATO ministers when they meet in Oslo next May. The committee will try to determine the areas where action is most urgently needed--perhaps communications and ammunition, as the French have suggested.

French Reluctance

Despite French reluctance, the allies agreed in principle last week to continue discussions within NATO on the broader questions of transatlantic standardization, procurement, and research and development. France insists that policy guidelines on these issues must first be developed among the

December 18, 1975

SECRET

SECRET

Europeans. This is critical, Paris argues, if European industrial and technical capabilities are to be protected in transatlantic competition.

Just recently, the French agreed to participate in a purely European effort to promote the joint production of equipment based on common requirements. An informal group of European officials will meet next month to begin studying how much cooperation may be possible. A proposal to create a European arms procurement agency, meanwhile, was rejected by the French on the grounds that it would be too closely linked to NATO or its Eurogroup.

The allies are willing to accept for now the French-imposed limitations on NATO efforts as a price for getting France involved at all in the standardization effort. The Belgians and the West Germans, in particular, recognize the delicacy of the French situation with regard to participation in "Atlantic" schemes.

Domestic political opposition in France to participation in any standardization scheme is intense both on the left and on the right. The decision to involve France, even in such a modest fashion, reportedly was made by President Giscard only after much internal wrangling.

Giscard continues to maintain that an independent defense policy remains a fundamental tenet of French global strategy. He recognizes, however, that greater European collaboration in arms efforts could lead to more orders for French arms makers, bolstering employment and the economy in general.

Another factor is that France is committed to involvement in NATO's contingency planning for conventional attack. This improves the prospect that Paris will further efforts toward standardization.

December 18, 1975

SECRET

~~SECRET~~

France will presumably seek to establish specific projects for inter-European cooperation within the new informal European group. The aim will be to assure an important role for French industry and to achieve a measure of European unity before engaging in NATO-wide negotiations. At the same time, of course, Paris will continue to seek bilateral deals with the US that would strengthen French production capabilities in defense and advanced technology areas.

The Europeans are willing to play along with the French so long as some momentum toward standardization is maintained. They realize that without French participation there can be no meaningful rationalization of European defense industries.

Without the French

If the French prove too troublesome in the European group, however, the allies will again be tempted to proceed without them. The UK and Italy, in particular, have warned that there is a limit to how far the Europeans should go in trying to secure French involvement.

The UK is especially anxious to see progress towards a "two-way street" in transatlantic arms procurement as a means of easing its balance of payments problems. London is suggesting that some decision should be reached soon to allow discussions concerning European collaboration and the two-way street to proceed in parallel.

The problem of a site for next month's session with senior West European defense, armaments and foreign office officials, and subsequent meetings if they materialize, is illustrative of the sensitivities aroused by the "NATO-vs-Europe" aspect of the standardization debate. The French will probably protest London as a choice, arguing that it is too

December 18, 1975

~~SECRET~~

SECRET

closely identified with the Eurogroup. Brussels, the seat of NATO, is even more objectionable to Paris, and the other Europeans will not contenance holding meetings in Paris.

A "neutral" city is a more likely choice, and Bonn may be suggested, but the Dutch for one are likely to want eventually to stress links with NATO by holding sessions in Brussels.

The participation of France, even if initially limited, is seen by many Europeans as providing a political impetus to European integration. The French deny any such intention and in fact remain skeptical of arms cooperation arrangements that have been proposed by the EC Commission in the context of a common industrial policy.

Nevertheless, the new European endeavors--especially if France's partners can sustain the threat that France might otherwise be relatively isolated from arms cooperation--contain the seeds for a more rational division of labor among the Europeans and establish a forum for arms discussions that are still regarded as too "political" a burden for the EC to bear.

25X1

December 18, 1975

SECRET

Secret

Secret